



Concentrated Equity

PREMISE VS. PRACTICE

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Motivation

Performance Needs



Fee Frustration



“Best Ideas” Literature



Premise



Fundamental Law of Active Management

$$IR = IC \times \sqrt{Breadth} \times TC$$

Risk-Adjusted
Active Performance

Information Coefficient
(i.e., predictive skill)

Number of Independent
Asset Return Forecasts

Transfer
Coefficient

Concentration:

- Discretionary stock selection doesn't scale
- Trade breadth for skill

Practice

- ❖ Concentrated strategies: Do they outperform?
- ❖ Challenges for risk management and portfolio construction
- ❖ An alternative approach: Systematic extensions



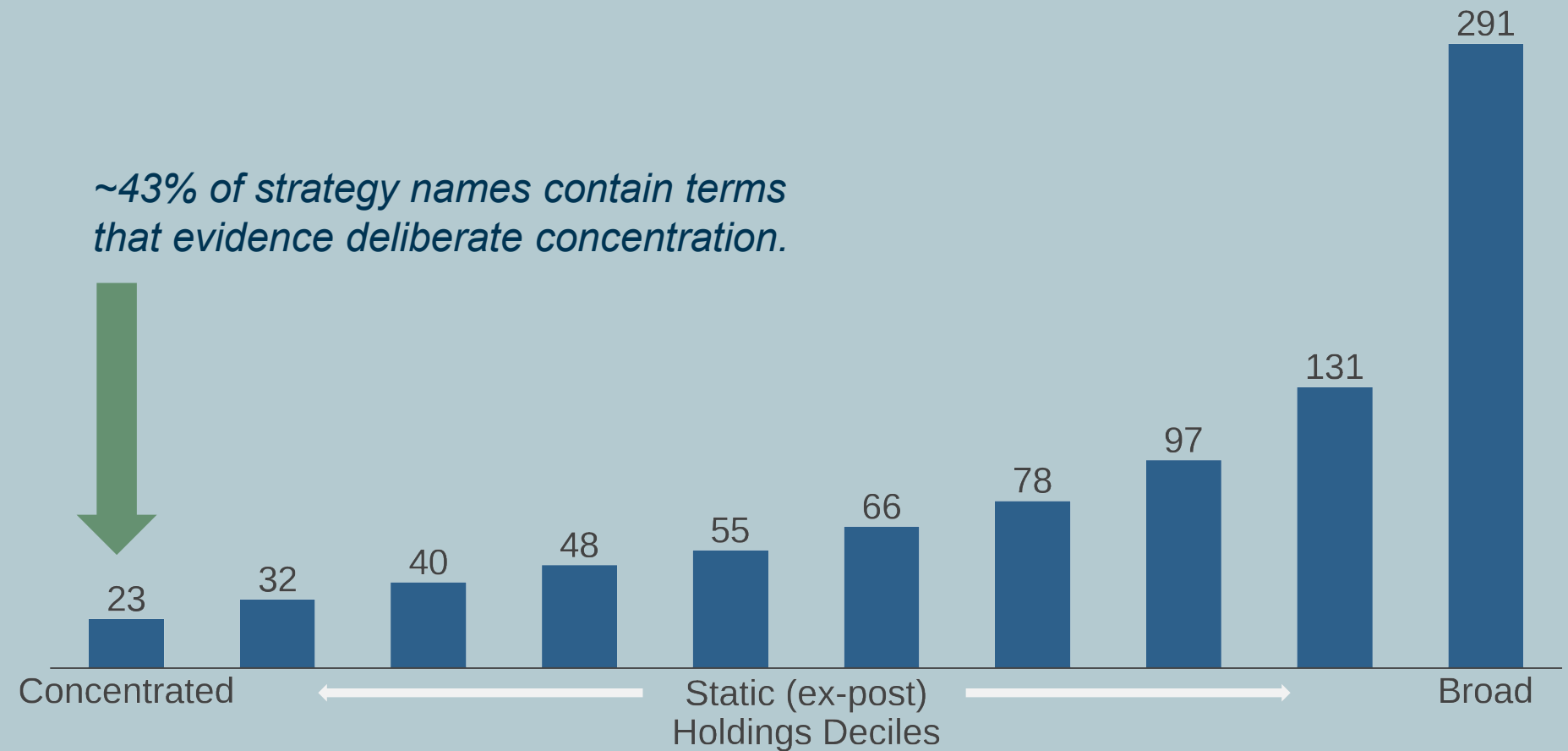
Concentrated strategies:
Do they outperform?

“Out-of-sample” evidence

Median number of stocks held within each holdings decile

Strategy Dataset

- Source: based on eVestment
- Period: 2013-2022
- Univ: U.S. equity long-only strategies with conventional broad bmks that satisfy non-zero AUM and other filters
- Sample size: ~2,950 strategies
- Concentration metric: number of holdings



Other filters on strategies include restrictions on enhanced, sector, and certain other universe/style emphasis categories, and strategies whose names are indicative of ADR, REIT, microcap, and volatility-oriented objectives. Chart sorts strategies into deciles based on their average number of holdings over the full sample period, i.e., there is lookahead bias. Source: Acadian based on data from eVestment. Data is from 2013-2022. Every investment program has an opportunity for loss as well as profit. Benchmarks are individual to each manager based on the benchmarks reported to eVestment. Past performance is no guarantee of future returns. eVestment Alliance, LLC and its affiliated entities (collectively, “eVestment”) collect information directly from investment management firms and other sources believed to be reliable, however, eVestment does not guarantee or warrant the accuracy, timeliness, or completeness of the information provided and is not responsible for any errors or omissions. Performance results may be provided with additional disclosures available on eVestment’s systems and other important considerations such as fees that may be applicable. Not for general distribution and limited distribution may only be made pursuant to client’s agreement terms. All managers in an eVestment category are not necessarily included. Copyright 2012-2023 eVestment Alliance, LLC. For illustrative purposes only. All Rights Reserved.

Have concentrated strategies outperformed?

Annualized benchmark-relative returns averaged first by date and then over time

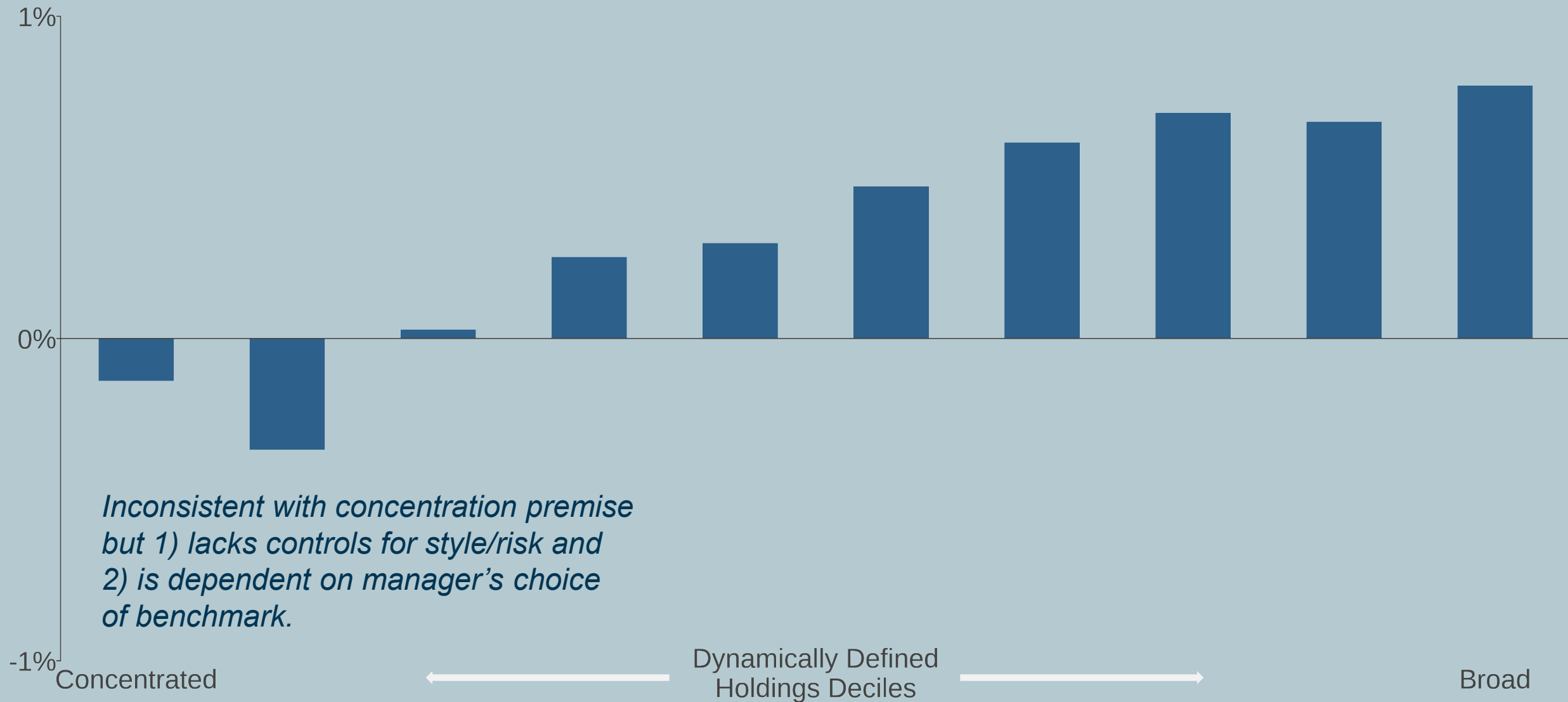


Chart sorts strategies into holdings deciles on a monthly basis based on then-current data. Chart shows average active return relative to Primary Benchmark in eVestment. Source: Acadian based on data from eVestment. Data is from 2013 to 2022. The performance information presented here is gross of fees. Benchmarks are individual to each manager based on the benchmarks reported to eVestment. Every investment program has an opportunity for loss as well as profit. Past performance is no guarantee of future returns. eVestment Alliance, LLC and its affiliated entities (collectively, "eVestment") collect information directly from investment management firms and other sources believed to be reliable, however, eVestment does not guarantee or warrant the accuracy, timeliness, or completeness of the information provided and is not responsible for any errors or omissions. Performance results may be provided with additional disclosures available on eVestment's systems and other important considerations such as fees that may be applicable. Not for general distribution and limited distribution may only be made pursuant to client's agreement terms. All managers in an eVestment category are not necessarily included. Copyright 2012-2023 eVestment Alliance, LLC. For illustrative purposes only. All Rights Reserved.

Is there evidence of better stock selection?

Estimated style-adjusted returns differential: concentrated minus broader “discretionary” strategies

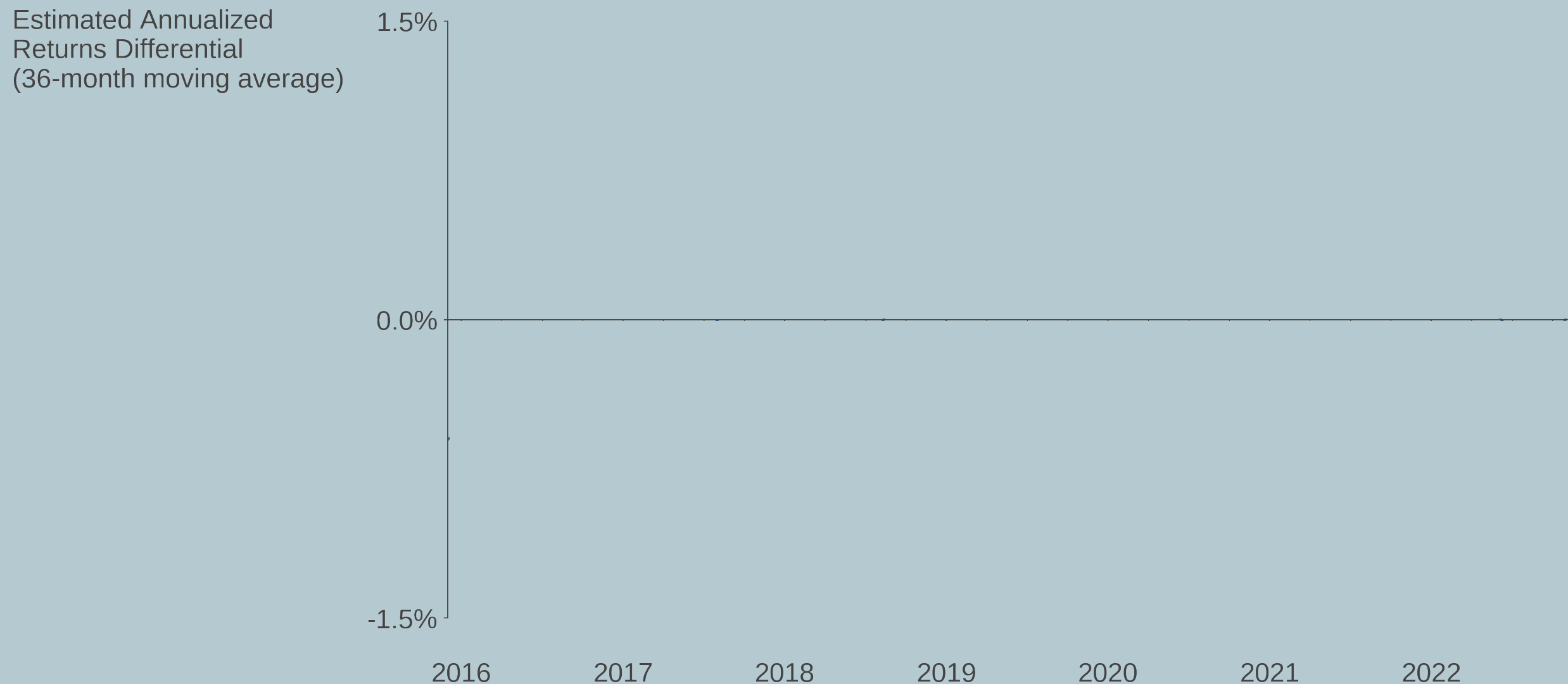


Chart shows rolling 36-month coefficient on indicator variable for most concentrated holdings decile relative to deciles 2-8 with additional controls for value, size, momentum, and market exposure as well as small AUM. Dataset described on slide 6. Holdings decilization described on slide 7. Source: Acadian based on data from eVestment. Data is from 2013 - 2022. The performance information presented here is gross of fees. Benchmarks are individual to each manager based on the benchmarks reported to eVestment. Every investment program has an opportunity for loss as well as profit. Past performance is no guarantee of future returns. eVestment Alliance, LLC and its affiliated entities (collectively, "eVestment") collect information directly from investment management firms and other sources believed to be reliable, however, eVestment does not guarantee or warrant the accuracy, timeliness, or completeness of the information provided and is not responsible for any errors or omissions. Performance results may be provided with additional disclosures available on eVestment's systems and other important considerations such as fees that may be applicable. Not for general distribution and limited distribution may only be made pursuant to client's agreement terms. All managers in an eVestment category are not necessarily included. Copyright 2012-2023 eVestment Alliance, LLC. For illustrative purposes only. All Rights Reserved.

A close-up photograph of a hand holding a vibrant red ribbon. The hand is positioned on the right side of the frame, with fingers curled around the ribbon. The ribbon is bright red and appears to be made of a smooth, slightly glossy material. The background is a plain, light-colored surface, possibly white or light grey, which makes the red ribbon stand out prominently. The lighting is soft and even, highlighting the texture of the skin and the folds of the ribbon.

Challenges for risk management and portfolio construction

Do you know what you're buying?

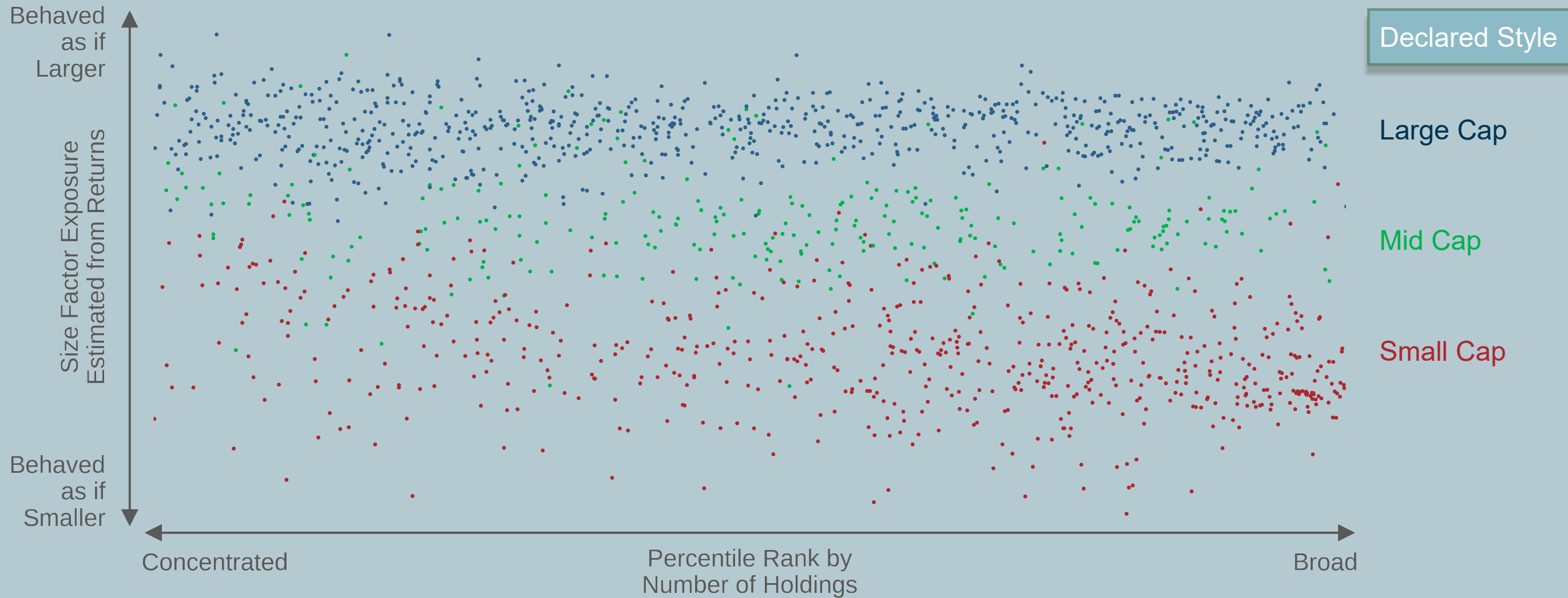
Estimated size factor exposures versus number of holdings (estimated from first 60M of 2013-2022 sample)



Chart's vertical axis reflects estimated loading of each strategy on Fama French small-minus-big (SMB) factor from 60-month regression of excess returns that also includes controls for market, value, and momentum factors. Horizontal axis shows percentile rank of strategies by number of holdings. Source: Acadian based on strategy data from eVestment and factor returns from Kenneth R. French Data Library. Kenneth R. French data all rights reserved, Copyright 2023 Kenneth R. French. The eVestment performance information presented here is gross of fees. Benchmarks are individual to each manager based on the benchmarks reported to eVestment. Every investment program has an opportunity for loss as well as profit. Past performance is no guarantee of future returns. eVestment Alliance, LLC and its affiliated entities (collectively, "eVestment") collect information directly from investment management firms and other sources believed to be reliable, however, eVestment does not guarantee or warrant the accuracy, timeliness, or completeness of the information provided and is not responsible for any errors or omissions. Performance results may be provided with additional disclosures available on eVestment's systems and other important considerations such as fees that may be applicable. Not for general distribution and limited distribution may only be made pursuant to client's agreement terms. All managers in an eVestment category are not necessarily included. Copyright 2012-2022 eVestment Alliance, LLC. All Rights Reserved. For illustrative purposes only.

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An alternative approach: Systematic extensions

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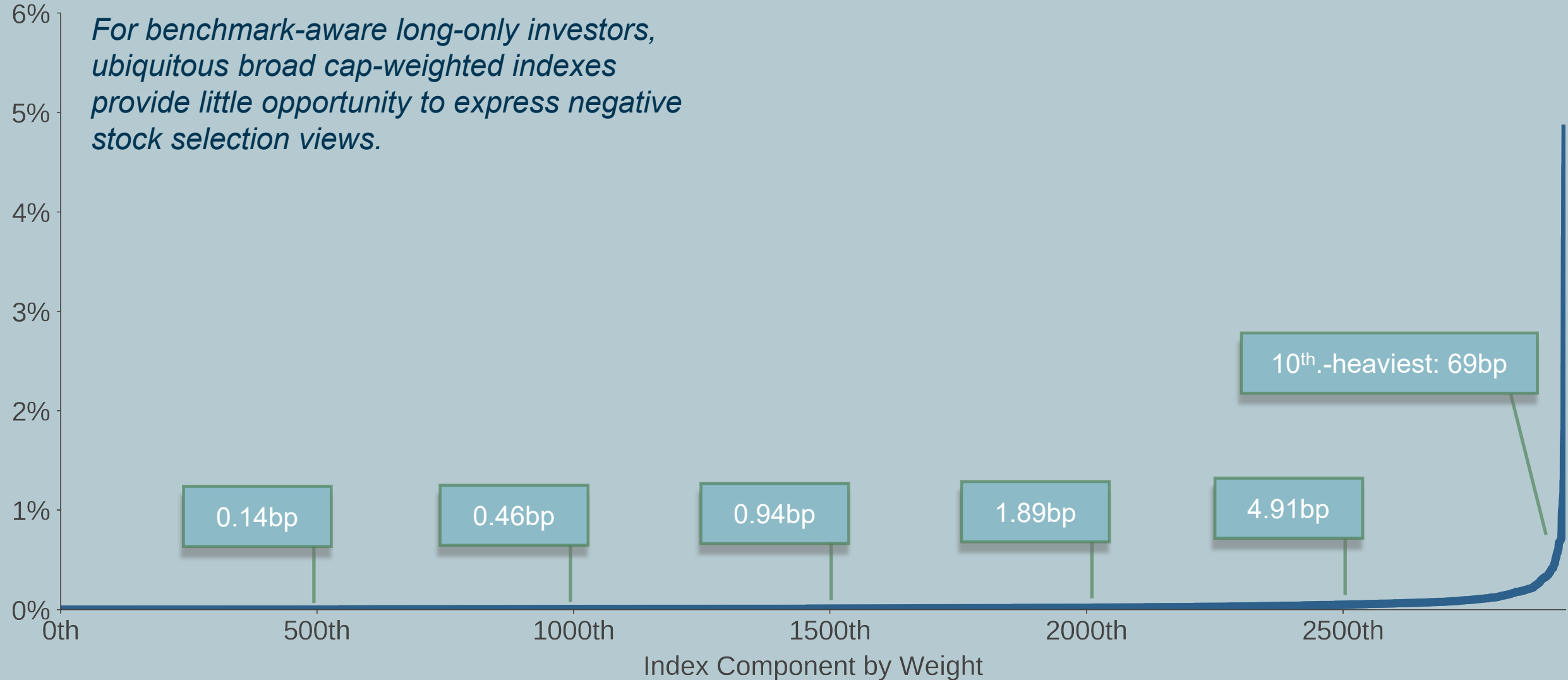
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Systematic extensions:

- Release long-only constraint -- make better use of process scalability
- No need to change forecasting model

Extension benefit: Roughly doubles usable forecasts

Weight distribution across MSCI All Country World Index constituents as of June 30, 2023



Source: Acadian based on data from MSCI. MSCI data copyright MSCI 2023. Every investment program has an opportunity for loss as well as profit. Past performance is no guarantee of future returns. For illustrative purposes only.

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Extension benefit: Better access to small-cap alpha

Average market capitalization by Acadian stock forecast decile (global universe, \$100MM mkt cap floor, 10-year average)



Source: Acadian. Every investment program has an opportunity for loss as well as profit. Past performance is no guarantee of future returns. For illustrative purposes only.

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Takeaways

- ❖ In practice, not clear that concentrated strategies deliver on “best ideas” premise
- ❖ Narrow investment universes and non-systematic portfolio construction create significant challenges for asset owners
- ❖ Systematic extension strategies: A more prudent way to amplify active exposure



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